

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name SAGINAW PREPARATORY ACADEMY	County SAGINAW
Audit Date 6/30/05	Opinion Date 8/26/05	Date Accountant Report Submitted to State: 10/26/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) GARDNER, PROVENZANO, SCHAUMAN & THOMAS, P.C.			
Street Address 4855 STATE STREET	City SAGINAW	State MI	ZIP 48603
Accountant Signature <i>Gardner & Thomas</i>		Date 10/26/05	

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Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

August 26, 2005

To the Board of Directors
Saginaw Preparatory Academy
Saginaw, Michigan

We have audited the accompanying financial statements of the governmental activities of Saginaw Preparatory Academy, as of and for the year ended June 30, 2005, which collectively comprise the Academy's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Saginaw Preparatory Academy's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Saginaw Preparatory Academy as of June 30, 2005, and the respective changes in financial position for the year ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors
Saginaw Preparatory Academy
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In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2004, on our consideration of Saginaw Preparatory Academy's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Gardner, Provengano, Schauman & Thomas, P.C.

Certified Public Accountants

SAGINAW PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Saginaw Preparatory Academy annual financial report presents our discussion and analysis of the Academy's financial performance during the year ended June 30, 2005. Please read it in conjunction with the Academy's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Saginaw Preparatory Academy financially as a whole. The Academy-wide financial statements provide information about the activities of the whole Academy, presenting both an aggregate view of the Academy's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Academy's operations in more detail than the Academy-wide financial statements by providing information about the Academy's most significant funds - the General Fund, Food Service Fund, Athletic Fund and Debt Service Fund.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Academy-wide Financial Statements Fund Financial Statements

Notes to the Basic Financial Statements

(Required Supplemental Information)
Budgetary Information for Major Funds

Other Supplemental Information

Reporting the Academy as a Whole - Academy-wide Financial Statements

One of the most important questions asked about the Academy is, "As a whole, what is the Academy's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Academy's financial statements, report information on the Academy as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Academy's net assets - the difference between assets and liabilities,

**Reporting the Academy as a Whole - Academy-wide Financial Statements
(continued)**

as reported in the statement of net assets - as one way to measure the Academy's financial health or financial position. Over time, increases or decreases in the Academy's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the Academy's operating results.

However, the Academy's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the Academy.

The statement of net assets and the statement of activities report the governmental activities for the Academy, which encompass all of the Academy's services, including instruction, support services, community services, athletics and food services. Unrestricted state aid (foundation allowance revenue), and state and federal grants finance most of these activities.

Reporting the Academy's Most Significant Funds - Fund Financial Statements

The Academy's fund financial statements provide detailed information about the most significant funds - not the Academy as a whole. Some funds are required to be established by State law and by bond covenants. However, the Academy establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using grants and other money. The governmental funds of the Academy use the following accounting approach:

Governmental funds - All of the Academy's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Academy and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Academy's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

SAGINAW PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Academy as a Whole

Recall that the statement of net assets provides the perspective of the Academy as a whole. Table 1 provides a summary of the Academy's net assets as of June 30, 2005 and June 30, 2004.

Table 1

Assets	2005	2004
Current and other assets	\$ 1,025,782	\$ 1,082,661
Capital assets -		
Net of accumulated depreciation	2,935,982	3,143,747
Total Assets	<u>3,961,764</u>	<u>4,226,408</u>
Liabilities		
Current liabilities	543,462	689,271
Noncurrent liabilities	3,720,000	3,790,000
Total Liabilities	<u>4,263,462</u>	<u>4,479,271</u>
Net assets		
Invested in capital assets -		
Net of related debt	(854,018)	(711,253)
Restricted for Debt Service	356,725	366,855
Unrestricted	195,595	91,535
Total Net Assets	<u>\$ (301,698)</u>	<u>\$ (252,863)</u>

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Academy's governmental activities is discussed below. The Academy's net assets were (\$301,698) at June 30, 2005. Capital assets, net of related debt totaling (\$854,018), compares the original cost, less depreciation of the Academy's capital assets to long-term debt used to finance the acquisition of those assets. Most of the debt will be repaid from General Fund revenue as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Academy's ability to use those net assets for day-to-day operations. The Academy has assets restricted for debt service of \$356,725. The remaining amount of net assets \$195,595 was unrestricted.

The \$195,595 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The unrestricted net assets balance enables the Academy to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

SAGINAW PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Academy as a Whole (continued)

The results of this year's operations for the Academy as a whole are reported in the statement of activities (Table 2), which shows the changes in net assets for fiscal years 2005 and 2004.

Table 2

Revenue		
Program revenue	2005	2004
Charges for services	\$ 2,623	\$ 7,745
Grants and categoricals	722,828	768,916
General revenue		
State foundation allowance	1,450,609	2,167,048
Other	7,289	20,775
Total Revenue	<u>2,183,349</u>	<u>2,964,484</u>
Function/Program expenses		
Instruction	700,671	1,195,146
Support services	915,392	1,158,073
Community services	3,441	904
Food services	138,354	161,640
Interest on long-term debt	259,800	263,643
Depreciation (unallocated)	214,526	121,169
Total Expenses	<u>2,232,184</u>	<u>2,900,575</u>
Increase (decrease) in Net Assets	<u>\$ (48,835)</u>	<u>\$ 63,909</u>

As reported in the statement of activities, the cost of all of our governmental activities this year was \$2,232,184. Certain activities were partially funded from those who benefited from the programs \$2,623 or by other governments and organizations that subsidized certain programs with grants and contributions \$722,828. We paid for the remaining "public benefit" portion of our governmental activities with \$1,450,609 in state foundation allowance, and with our other revenues, i.e., interest and general entitlements.

The Academy experienced a decrease in net assets of \$48,835. Key reasons for the change in net assets were a decrease in student enrollment and a large jump in depreciation due to acceleration of depreciation in 2005.

As discussed above, the net cost shows the financial burden that was placed on the State by each of these functions. Since unrestricted state aid constitutes the vast majority of Academy operating revenue sources, the Board of Directors and administration must annually evaluate the needs of the Academy and balance those needs with State-prescribed available unrestricted resources.

SAGINAW PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Academy's Funds

As we noted earlier, the Academy uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the Academy is being accountable for the resources the State and others provide to it and may provide more insight into the Academy's overall financial health.

As the Academy completed this year, the governmental funds reported a combined fund balance of \$552,320, which is an increase of \$93,930 from last year. The primary reason for the increase was the ability to control expenditures in the face of declining revenues.

In the General Fund, our principal operating fund, the fund balance increased to \$195,595. The change is mainly due to control of expenditures.

General Fund balance is available to fund costs related to allowable school operating purposes.

The Debt Service Fund showed a fund balance decrease of approximately \$10,131. Debt Service Fund balance is reserved since it can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the Academy revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Academy's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements.

There were significant revisions made to the 2004-2005 General Fund original budget. Budgeted revenues were decreased \$111,958 due to actual student enrollment being less than original estimates.

Budgeted expenditures were also decreased \$144,921 to account for the decrease in salaries and purchased professional services resulting from the Academy's revised operating plan due to the fluctuations in revenue. The amount of transfers to other funds established in the amended budget was \$355,932 and represents support provided by the General Fund to other functions.

There were no significant variances between the final budget and actual amounts.

SAGINAW PREPARATORY ACADEMY
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2005, the Academy had a net investment in capital assets of \$2,935,982 including land, land improvements, buildings, furniture and equipment. This amount represents a net decrease (including additions, disposals, and depreciation) of approximately \$207,765 from last year.

	<u>2005</u>	<u>2004</u>
Land	\$ 30,000	\$ 30,000
Land Improvements	20,011	20,011
Buildings	3,232,022	3,232,022
Furniture & Equipment	<u>412,770</u>	<u>406,009</u>
Total Capital Assets	3,694,803	3,688,042
Less Accumulated Depreciation	<u>758,821</u>	<u>544,295</u>
Net Capital Assets	<u>\$ 2,935,982</u>	<u>\$ 3,143,747</u>

This year's additions of \$6,761 included a freezer, a computer and basketball backboards. No debt was issued for these additions.

In fiscal year 2005-2006 we anticipate capital additions will be comparable to 2004-2005 fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Debt

At the end of this year, the Academy had \$3,790,000 in Full Term Certificates of Participation outstanding. We present more detailed information about long-term liabilities in the notes to the Financial Statements.

Economic Factors and Next Year's Budgets and Rates

Our appointed officials and administration consider many factors when setting the Academy's 2006 fiscal year budget. One of the most important factors affecting the budget is our student count. The state foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2006 fiscal year is 25 percent and 75 percent of the February 2005 and September 2005 student counts, respectively. The 2006 budget was adopted in May 2005, based on an estimate of students that will be enrolled in September 2005. Approximately 70 percent of total General Fund revenue is from the foundation allowance. As a result, Academy

Economic Factors and Next Year's Budgets and Rates (continued)

funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006 school year, we anticipate that the fall student count will be short of the estimates used in creating the 2006 budget. Once the final student count and related per pupil funding is validated, State law requires the Academy to amend the budget if actual Academy resources are not sufficient to fund original appropriations.

Since the Academy's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to academies. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates funds are sufficient to fund the appropriation.

CONTACTING THE ACADEMY'S MANAGEMENT

This financial report is designed to provide our stakeholders with a general overview of the Academy's finances. If you have questions about this report or need additional information, contact the Administration Office, The Leona Group, 4660 S. Hagadorn Road, Suite 500, East Lansing, Michigan 48823.

SAGINAW PREPARATORY ACADEMY
 ACADEMY WIDE STATEMENT OF NET ASSETS
 JUNE 30, 2005

	Governmental Activities
Assets	
Cash & cash equivalents	\$ 4,235
Investments	356,066
Accounts receivable	1,392
Due from other governmental units	658,587
Prepaid expenses	5,502
Capital assets less accumulated depreciation	2,935,982
Total Assets	<u>3,961,764</u>
Liabilities	
Accounts payable	38,151
Accrued expenses	110,361
Deferred revenue	51,789
Due to management company	118,616
Note payable	154,545
Certificates payable, due within one year	70,000
Noncurrent liabilities	
Certificates payable, due in more than one year	3,720,000
Total Liabilities	<u>4,263,462</u>
Net Assets	
Invested in capital assets net of related debt	(854,018)
Restricted for debt service	356,725
Unrestricted	195,595
Total Net Assets	<u>\$ (301,698)</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY
ACADEMY WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Instruction	\$ 700,671	\$ -	\$ 574,363	\$ (126,308)
Support services	915,392	-	63,847	(851,545)
Community services	3,441	-	-	(3,441)
Food services	138,354	2,623	84,618	(51,113)
Interest on long-term debt	259,800	-	-	(259,800)
Depreciation (unallocated)	214,526	-	-	(214,526)
Totals	<u>\$ 2,232,184</u>	<u>\$ 2,623</u>	<u>\$ 722,828</u>	<u>(1,506,733)</u>
General revenues:				
State aid - unrestricted				1,450,609
Interest				6,449
Other				840
Total General Revenues				<u>1,457,898</u>
Change in Net Assets				(48,835)
Net Assets - Beginning of Year				(252,863)
Net Assets - End of Year				<u>\$ (301,698)</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2005

	General Fund	Food Service	Athletics	Debt Service	Totals
<u>Assets</u>					
Cash & cash equivalents	\$ 4,235	\$ -	\$ -	\$ -	\$ 4,235
Investments	-	-	-	356,066	356,066
Accounts receivable	733	-	-	659	1,392
Due from other governmental units	658,587	-	-	-	658,587
Prepaid expenditures	5,502	-	-	-	5,502
Total Assets	<u>\$ 669,057</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 356,725</u>	<u>\$ 1,025,782</u>
<u>Liabilities and Fund Balance</u>					
<u>Liabilities</u>					
Accounts payable	\$ 38,151	\$ -	\$ -	\$ -	\$ 38,151
Accrued expenses	110,361	-	-	-	110,361
Deferred revenue	51,789	-	-	-	51,789
Due to management company	118,616	-	-	-	118,616
Notes payable	154,545	-	-	-	154,545
Total Liabilities	<u>473,462</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>473,462</u>
<u>Fund Balance</u>					
Reserved for debt service	-	-	-	356,725	356,725
Unreserved and undesignated	195,595	-	-	-	195,595
Total Fund Balance	<u>195,595</u>	<u>-</u>	<u>-</u>	<u>356,725</u>	<u>552,320</u>
Total Liabilities and Fund Balance	<u>\$ 669,057</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 356,725</u>	<u>\$ 1,025,782</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY
RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO ACADEMY WIDE STATEMENT OF NET ASSETS
JUNE 30, 2005

Total Fund Balances - Governmental Funds \$ 552,320

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used in governmental activities are not financial
resources and are not reported in the funds.

The cost of the capital assets is	3,694,803
Accumulated depreciation is	(758,821)

Long-term liabilities are not due and payable in the current period
and are not reported in the funds:

Certificates of Participation payable	<u>(3,790,000)</u>
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Total Net Assets - Governmental Activities (Academy Wide)	<u>\$ (301,698)</u>
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The accompanying notes are an integral part of these financial statements.

**SAGINAW PREPARATORY ACADEMY
GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005**

	General	Food Service	Athletics	Debt Service	Totals
Revenue					
Local	\$ 840	\$ 2,623	\$ -	\$ 6,449	\$ 9,912
Other political subdivisions	3,082	-	-	-	3,082
State	1,734,859	4,117	-	-	1,738,976
Federal	350,878	80,501	-	-	431,379
Total Revenue	<u>2,089,659</u>	<u>87,241</u>	<u>-</u>	<u>6,449</u>	<u>2,183,349</u>
Expenditures					
Instruction	700,671	-	-	-	700,671
Supporting services					
Pupil support	37,331	-	-	-	37,331
Instructional staff	109,227	-	-	-	109,227
General administration	178,514	-	-	-	178,514
School administration	196,178	-	-	-	196,178
Business	83,916	-	-	-	83,916
Operations and maintenance	200,883	-	-	-	200,883
Pupil transportation services	33,662	-	-	-	33,662
Central services	82,442	-	-	-	82,442
Community services	3,441	-	-	-	3,441
Food service	-	136,727	-	-	136,727
Athletics	-	-	1,627	-	1,627
Debt service	-	-	-	324,800	324,800
Total Expenditures	<u>1,626,265</u>	<u>136,727</u>	<u>1,627</u>	<u>324,800</u>	<u>2,089,419</u>
Excess (Deficiency) of Revenues over Expenditures	463,394	(49,486)	(1,627)	(318,351)	93,930
Other Financing Sources (Uses)					
Sources	-	49,486	1,627	308,220	359,333
Uses	<u>(359,333)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(359,333)</u>
Total Other Financing Sources (Uses)	(359,333)	49,486	1,627	308,220	-
Net Change in Fund Balance	104,061	-	-	(10,131)	93,930
Fund Balance, Beginning	91,534	-	-	366,856	458,390
Fund Balance, Ending	<u>\$ 195,595</u>	<u>-</u>	<u>-</u>	<u>\$ 356,725</u>	<u>\$ 552,320</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE
 ACADEMY WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2005

Net Change in Fund Balances - Governmental Funds	\$	93,930
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures; in the statement of activities, these costs are capitalized and depreciated over their estimated useful lives.		
Depreciation expense		(214,526)
Capital outlay		6,761
Repayment of principal is an expenditure in the governmental funds, but not in the statement of activities		
Certificates of Participation payable		65,000
Change in Net Assets of Governmental Activities (Academy Wide)	<u>\$</u>	<u>(48,835)</u>

The accompanying notes are an integral part of these financial statements.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

A. Reporting Entity

Saginaw Preparatory Academy was formed as a Charter School Academy pursuant to the Michigan School Code of 1976, as amended by Act 362 of the Public Acts of 1993 and Act No. 416 of the Public Acts of 1994. The Academy filed articles of incorporation as a nonprofit corporation pursuant to the provisions of the Michigan Nonprofit Corporation Act of 1982.

In 1997, the Academy entered into a five-year contract with Saginaw Valley State University to charter a public school academy. The contract was extended until June 30, 2006. The contract requires the Academy to act exclusively as a governmental agency and not undertake any action inconsistent with its status as an entity authorized to receive state school aid funds pursuant to the State Constitution. The Saginaw Valley State University Board of Trustees is the fiscal agent for the Academy and is responsible for overseeing the Academy's compliance with the contract and all applicable laws. The Academy pays the Saginaw Valley State University Board of Trustees three percent of state aid as administrative fees. The total administrative fee paid for the year ended June 30, 2005 to the Saginaw Valley State University Board of Trustees was approximately \$43,843.

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board (GASB) for determining the various governmental organizations to be included in the reporting entity. These criteria include significant operational or financial relationships with the public school academy. Based on application of the criteria, the Academy does not contain component units.

The Academy's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). GASB is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, when applicable, that do not conflict with or contradict GASB pronouncements. The more significant accounting policies relating to GAAP and used by the Academy are discussed below.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Academy-Wide Statements

The Statement of Net Assets and the Statement of Activities are Academy-Wide statements and display information about the Academy as a whole. The Academy-Wide approach is focused more on the sustainability of the Academy as an entity and the change in the Academy's net assets from the current year's activities. These statements distinguish between activities that are governmental and those that are considered business-type activities. Currently, all activities of the Academy are considered to be governmental.

The Academy-Wide statements are prepared using the economic resources measurement focus and the full accrual basis of accounting. This basis is different from the manner in which the governmental fund financial statements are prepared. Therefore, reconciliation is included to identify the relationship between the Academy-Wide statements and the statements for the governmental funds.

The Statement of Activities presents a comparison between program expenses and program revenues. Revenues that are not classified as direct program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financing or draws resources from the general revenues of the Academy.

C. Fund Financial Statements

The accounts of the Academy are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following fund types are used by the Academy:

Governmental Funds

The governmental fund statements are prepared using the current resources measurement focus and the modified accrual basis of accounting. The fund approach is focused on the currently available resources and changes in the currently available resources of the Academy.

General Fund is the general operating fund of the Academy. It is used to account for all financial resources except those that are required to be accounted for in another fund.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Fund Financial Statements (continued)

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for a specified purpose. The Special Revenue Funds maintained by the Academy are the Food Service Fund and the Athletic Fund. The Food Service Fund is intended to be self-supporting; however, any deficits are financed from operating transfers from the General Fund. This year the Athletic Fund was supported entirely by the General Fund.

Debt Service Funds are used to account for the accumulation of funds for the periodic payment of principal and interest on long-term debt. The General Fund transfers in revenue to cover the principal and interest on the long-term debt.

Usually the emphasis in fund financial statements is on the major funds. The Academy has opted to display information for all funds without regard to the criteria for determination of major funds as determined by GASB 34.

D. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. Accounting basis relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

The full accrual basis of accounting requires recognition of revenues when earned and expenses when incurred, regardless of the timing of related cash flows. Grants, categorical aid, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. This method is used for the Academy-Wide statements.

Modified Accrual

The modified accrual basis recognizes revenues when they are measurable and available, available means collectible with the current period or within 60 days after year-end. Expenditures are still recognized when incurred; however, principal and interest on long-term debt is recognized when payment is due. This method is used for the Fund Level statements.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

Basis of Accounting

The most significant difference between the full accrual basis of accounting and the modified accrual basis of accounting is the way in which capital assets and long-term debt are recognized. The full accrual basis of accounting recognizes purchases of capital assets as an asset and long-term debt proceeds as a liability (similar to a for-profit business). The modified accrual basis of accounting recognizes the purchase of capital assets as expenditures and long-term debt proceeds as other revenue sources.

E. Financial Statement Amounts

Cash

Cash includes cash on hand and demand deposits.

Investments

Investments held at June 30, 2005 were invested in Treasury obligations.

Receivables & Due Froms

Receivables and due froms consist of all revenues earned at year-end but not yet received.

Prepaid

Prepaid amounts consist of payments for which the Academy will have a future benefit and will be used up at a date beyond the current year-end.

Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historical cost or estimated historical cost. Contributed assets are reported at fair value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The Academy does not possess infrastructure type assets. Depreciation on all assets is provided on the straight-line method over the following estimated useful lives:

Land improvements	15 years
Buildings	39 years
Furniture and equipment	3-7 years

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Capital Assets and Depreciation (continued)

The Academy's basic capitalization policy is to capitalize all capital assets with a cost of over \$1,000, other than software, which is capitalized when the cost is \$10,000 or more.

Accounts Payable

Accounts payable consist of items from which the Academy benefited during the current fiscal year but has not yet paid.

Accrued Expenses

Accrued expenses consist of items related to payroll liabilities, specifically the withholding of employees' portion for insurance payments.

Due to Management Company

Due to Management Company consist of amounts due on contracted employee's management fees, and other services provided that are due and payable for the current fiscal year.

Deferred Revenue

Deferred revenue represents amounts for which the Academy has received but has not yet earned. Deferred revenue is usually caused by the receipt of grant program revenues in excess of expenses/expenditures related to the grant. The revenues are deferred until the proceeds have been fully expensed/expended.

Notes Payable

Notes payable consist of a state aid anticipation note issued for the continuance of operations.

Long-Term Liabilities

Certificates of Participation payable are the result of long-term obligations issued for the purpose of making capital purchases and improvements.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

E. Financial Statement Amounts (continued)

Inter-fund Activity

Inter-fund activity is reported as transfers. Transfers are eliminated upon conversion to full accrual.

NOTE 2--Stewardship, Compliance, and Accountability

The Academy is required to adopt an annual budget before the beginning of the fiscal year for the General Fund and Special Revenue Funds. The accounting basis of the budgets is the modified accrual method. Following are the procedures used in establishing the budgetary data reflected in the financial statements:

1. The Academy's Administrator normally submits to the Board of Directors a proposed budget by June 30 of each year. The budget includes proposed expenditures and the means to finance them. However, due to the change in the management company, the budget for this fiscal year was not adopted until July of 2004.
2. The Administrator is authorized to transfer budgeted amounts between functions within any fund; however, any revisions that alter the total expenditures of any function must be approved by the Board of Directors.
3. The budget is adopted on a basis consistent with generally accepted accounting principles.
4. Budgeted amounts shown in the supplemental information reflect amendments approved by the Board of Directors through June 30, 2005.

The budgetary comparison presents information by fund and function. The legal level of budgetary control adopted by the governing body (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. State law requires the Academy to have its budget in place by June 30. Expenditures in excess of amounts budgeted are a violation of Michigan law. State law permits districts to amend their budgets during the year. The Academy did not have significant expenditure budget variances. Budget variances are illustrated in the required supplemental information.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3--Deposits and Investments

The Academy is authorized, by the State of Michigan, to deposit its fund in banks, savings and loan associations, or credit unions having a principal office in Michigan.

The Academy is also authorized to invest in the following:

- a. Direct bonds and obligations of the U.S. or agency or instrumentality;
- b. CDs, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency;
- c. Commercial paper – within three highest rate classifications by at least two rating services, maturing not later than 270 days;
- d. U.S. or agency repurchase agreements;
- e. Banker's acceptance of U.S. banks;
- f. Mutual funds – investments which local unit can make directly.

As of year-end, the carrying amount of the Academy deposits was \$4,235 and the bank balance was \$23,959. Of the bank balance, \$23,959 was covered by federal depository insurance and the balance was uninsured and un-collateralized.

A total of \$356,066 of the Academy's investment is held in trust and restricted for debt service and capital acquisition under the terms of the Academy's Certificate of Participation agreements (see Note 6).

Currently, the Academy does not have an investment policy. However, the Academy's investments are currently in Treasury obligations and management feels the risk is low.

NOTE 4--Short-Term Debt

The Academy had \$154,545 outstanding at June 30, 2005, on a state aid anticipation note due in August of 2005, bearing interest at 3.6%. The following are the changes in short-term debt:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005
Governmental Activities				
State Aid anticipation note	161,986	850,000	857,441	154,545
Totals	<u>\$ 161,986</u>	<u>\$ 850,000</u>	<u>\$ 857,441</u>	<u>\$ 154,545</u>

The proceeds from the State Aid anticipation note were used to sustain operations until the Academy received State Aid.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5--Capital Assets and Accumulated Depreciation

Capital asset activity of the Academy was as follows:

	Balance July 1, 2004	Additions	Disposals	Balance June 30, 2005
Capital assets not subject to depreciation				
Land	\$ 30,000	\$ -	\$ -	\$ 30,000
Subtotal	30,000	-	-	30,000
Capital assets subject to depreciation				
Land Improvements	20,011	-	-	20,011
Buildings	3,232,022	-	-	3,232,022
Furniture & Equipment	406,009	6,761	-	412,770
Subtotal	3,658,042	6,761	-	3,664,803
Total Capital Assets	3,688,042	6,761	-	3,694,803
Accumulated depreciation				
Land Improvements	15,008	5,003	-	20,011
Buildings	323,202	64,601	-	387,803
Furniture & Equipment	206,085	144,922	-	351,007
Total Accumulated Depreciation	544,295	214,526	-	758,821
Total Net Capital Assets	\$ 3,143,747	\$ (207,765)	\$ -	\$ 2,935,982

NOTE 6--Long-Term Debt

The Academy's long-term debt includes \$3,790,000 of Certificates of Participation, bearing interest at rates between 5.40% and 7.00%. The obligations require semi-annual interest payment due on December 1 and June 1, and an annual payment of principal due on June 1 beginning June 1, 2002. The certificates are collateralized by a mortgage on the Academy's facility. Twenty percent of the Academy's unrestricted state aid revenue is allowed to be used for debt service on the certificates. At June 30, 2005, the Academy had exceeded the allowed twenty percent.

Following is a summary of changes in long-term debt of the Academy:

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005	Current Portion
Governmental Activities					
Certificates of Participation	3,855,000	-	65,000	3,790,000	70,000
Totals	\$ 3,855,000	\$ -	\$ 65,000	\$ 3,790,000	\$ 70,000

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 6—Long-Term Debt (continued)

Annual debt service requirements to maturity for the above governmental activity is as follows:

Year Ended	Principal	Interest	Total
2005-06	70,000	256,095	326,095
2006-07	75,000	252,035	327,035
2007-08	80,000	247,610	327,610
2008-09	85,000	242,810	327,810
2009-10	90,000	118,812	208,812
2010-11 thru 2014-15	535,000	546,775	1,081,775
2015-16 thru 2019-20	735,000	447,487	1,182,487
2020-21 thru 2024-25	1,015,000	304,675	1,319,675
2025-26 thru 2028-29	1,105,000	99,925	1,204,925
Totals	<u>\$ 3,790,000</u>	<u>\$ 2,516,224</u>	<u>\$ 6,306,224</u>

Governmental Activities

Full Term Certificates of
Participation of the following:

1999 serial and term
certificate due in annual
installments of \$55,000
to \$305,000 through
June 1, 2029; interest
at 5.4% to 7.0%

\$ 3,790,000

Interest expense for the year on all debt totaled approximately \$259,800.

NOTE 7--Risk Management

The Academy is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The risk of employee injuries and medical benefits for employees of the management company are covered by insurance held by the management company. The Academy has purchased commercial insurance for all other claims.

NOTE 8--Related Party Transactions

The Academy has a management agreement with a for-profit corporation through June 30, 2005. Currently, a contract is in negotiations. Management fees are based on ten percent of all state and federal revenues and approximated \$209,085 for the year ended June 30, 2005.

SAGINAW PREPARATORY ACADEMY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8--Related Party Transactions (continued)

The management company provides all the resources required to operate the Academy including administration, instruction and operations. All Academy personnel are provided by the management company. The related payroll expenses paid to the management company for the year ended June 30, 2005, approximated \$900,964.

NOTE 9--Lease Commitments

The Academy has a lease agreement for copiers, which expired this year. The amount expensed under the lease for the fiscal year was \$4,905. During the year ended, the Academy entered into a new lease agreement for copiers. The amount expensed under the lease for the fiscal year was \$1,365. Minimum annual future payments are as follows:

For the Year Ended June 30,	Payments
2006	\$ 5,460
2007	5,460
2008	4,095
	<u>\$ 15,015</u>

NOTE 10--Interfund -- Receivables, Payables, and Transfers

Transfers			
Fund	Transfer In	Fund	Transfer Out
Food Service	\$ 49,486	General	\$ 49,486
Athletics	1,627	General	1,627
Debt Service	308,220	General	308,220
	<u>\$ 359,333</u>		<u>\$ 359,333</u>

The transfers to the Food Service and Athletics funds were to subsidize those programs. The transfer to the Debt Service fund was to cover principal and interest on long-term debt.

NOTE 11--Designated Fund Balance

The Debt Service fund balance is designated for the purpose of servicing long-term debt.

REQUIRED SUPPLEMENTAL INFORMATION

Saginaw Preparatory Academy
Budgetary Comparison
For the Year Ended June 30, 2005

	General Fund			Special Revenue Funds		
	Original Budget	Final Budget	Actual	Original Budget	Final Budget	Actual
Revenue						
Local	\$ 2,000	\$ 1,000	\$ 840	\$ 4,400	\$ 2,700	\$ 2,623
Other political subdivisions	-	7,632	3,082	-	-	-
State	1,905,654	1,695,301	1,734,859	10,449	-	4,117
Federal	312,070	403,833	350,878	111,293	98,293	80,501
Incoming transfer and other	-	-	-	-	29,287	51,113
Total Revenues	<u>2,219,724</u>	<u>2,107,766</u>	<u>2,089,659</u>	<u>126,142</u>	<u>130,280</u>	<u>138,354</u>
Expenditures						
Instruction						
Basic programs	613,262	462,354	447,206	-	-	-
Added needs	193,779	259,826	253,465	-	-	-
Support Services						
Pupil	58,920	34,650	37,331	-	-	-
Instructional staff	141,819	127,752	109,227	-	-	-
General administration	201,513	174,960	178,514	-	-	-
School administration	162,190	188,835	196,178	-	-	-
Business	95,608	90,678	83,916	-	-	-
Operation and maintenance	218,941	192,632	200,883	-	-	-
Pupil transportation services	40,000	32,083	33,662	-	-	-
Central services	89,749	83,613	82,442	-	-	-
Other	-	-	-	-	-	-
Community services	2,500	5,294	3,441	-	-	-
Food service	-	-	-	125,542	134,280	136,727
Athletics	-	-	-	600	1,715	1,627
Debt service	-	-	-	-	-	-
Outgoing transfers and other	335,249	355,932	359,333	-	-	-
Total Expenditures	<u>2,153,530</u>	<u>2,008,609</u>	<u>1,985,598</u>	<u>126,142</u>	<u>135,995</u>	<u>138,354</u>
Excess (Deficiency) of Revenues Over Expenditures	66,194	99,157	104,061	-	(5,715)	-
Fund Balance - Beginning of Year	91,534	91,534	91,534	-	-	-
Fund Balance - End of Year	<u>\$ 157,728</u>	<u>\$ 190,691</u>	<u>\$ 195,595</u>	<u>\$ -</u>	<u>\$ (5,715)</u>	<u>\$ -</u>

ADDITIONAL SUPPLEMENTAL INFORMATION

Saginaw Preparatory Academy
Schedule of Outstanding Certificate Indebtness
June 30, 2005

1999 Issue \$4,035,000

Interest Rate: 5.4% to 7.0%

Year Ending June 30,	Annual Principal June 1	Semiannual Interest Payment		Total Fiscal Year Requirement
		December 1	June 1	
2005-06	70,000	128,047	128,048	326,095
2006-07	75,000	126,018	126,017	327,035
2007-08	80,000	123,805	123,805	327,610
2008-09	85,000	121,405	121,405	327,810
2009-10	90,000	118,812	118,813	327,625
2010-11	95,000	115,887	115,888	326,775
2011-12	100,000	112,800	112,800	325,600
2012-13	105,000	109,550	109,550	324,100
2013-14	115,000	106,138	106,137	327,275
2014-15	120,000	102,400	102,400	324,800
2015-16	130,000	98,500	98,500	327,000
2016-17	140,000	94,275	94,275	328,550
2017-18	145,000	89,725	89,725	324,450
2018-19	155,000	85,012	85,012	325,024
2019-20	165,000	79,975	79,975	324,950
2020-21	175,000	74,200	74,200	323,400
2021-22	190,000	68,075	68,075	326,150
2022-23	205,000	61,425	61,425	327,850
2023-24	215,000	54,250	54,250	323,500
2024-25	230,000	46,725	46,725	323,450
2025-26	250,000	38,675	38,675	327,350
2026-27	265,000	29,925	29,925	324,850
2027-28	285,000	20,650	20,650	326,300
2028-29	305,000	10,675	10,676	326,351
Totals	<u>\$ 3,790,000</u>	<u>\$ 2,016,949</u>	<u>\$ 2,016,951</u>	<u>\$ 7,823,900</u>



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

August 26, 2005

To the Board of Directors
Saginaw Preparatory Academy
Saginaw, Michigan

We have audited the financial statements of the governmental activities of Saginaw Preparatory Academy as of and for the year ended June 30, 2005, which collectively comprise Saginaw Preparatory Academy's basic financial statements, and have issued our report thereon dated August 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Saginaw Preparatory Academy's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Education
Saginaw Preparatory Academy
Page Two

Compliance

As part of obtaining reasonable assurance about whether Saginaw Preparatory Academy's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Seidner, Ruvvenyomo, Schauman & Thomas, P.C.

Certified Public Accountants



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

August 26, 2005

Board of Directors
Saginaw Preparatory Academy
Saginaw, Michigan

In planning and performing our audit of the financial statements of the Academy for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency.

Budgets

On January 11, 2001, the State of Michigan's 90th Legislature passed Act 493 PA 2000 amending certain budgeting related sections of the Uniform Budgeting and Accounting Act. The amendment was given immediate effect. Part of that amendment requires a budget be adopted for the general fund and all special revenue funds before the beginning of the Academy's fiscal year.

We noted that the required budgets were not adopted by the Board of Directors until July of 2004, which was after the start of the fiscal year. Upon inquiry, we discovered the Academy was in transition in regard to the changing of management companies at the start of the fiscal year, which we believe was a factor in the budget not adopted on a timely basis.

In the future, we recommend the Board of Directors adopt a budget before the start of the fiscal year.

Allowable Transfer to debt Service Fund

The State School Aid Act of 1979 section 388.1618 indicates "not more than 20% of the total amount received by a district under article 2 or intermediate district under article 8 may be transferred by the board to either the capital projects fund or to debt retirement fund for debt service". We noted for the year ended June 30, 2005, the transfer from the general fund to the debt service fund exceeded the allowable 20% of unrestricted state aid.

Board of Directors
Saginaw Preparatory Academy
August 26, 2005
Page Two

We recommend the Board work with its management company in determining the best approach to resolve this issue.

We will review the status of these issues during our next audit engagement.

This report is intended solely for the information and use of the Academy's management and others within the organization.

Gardner, Perrezo, Schuman & Thomas, P.C.

Certified Public Accountants